HISTORY OF BANK INDONESIA : BANKING
Period from 1953-1959

Contents :

1. Highlights

After returning to the Unitary State of the Republic of Indonesia on 17 August 1950, Indonesia was faced with a Herculean task of reuniting the two banking structures that were previously separated. Initially, Indonesian economic structure, including banking, was still dominated by the colonial system. Indonesian banking structure of the time was not of any significance in administering banking operations. This caused the public to strongly demand that more national elements be involved in Indonesian economic structure.

Bank Indonesia was established after the enactment of Bank Indonesia Act on 1 July 1953. Pursuant to the Act, Bank Indonesia as the Central Bank was assigned to supervise banks. However, the supervision regulation was not put into practice until it was stated in Government Regulation No. 1/1955 that authorized Bank Indonesia, on behalf and for the Monetary Board, to supervise banks operating in Indonesia in terms of their solvability and liquidity and sound credit disbursement in accordance with prudent and accurate banking policies. It was then disclosed by Bank Indonesia investigation that irresponsible practices, such as fictive capital and bank within bank activities, were committed. Monetary Board Decision No. 25 of 1957 that prohibited banks from taking actions beyond the banking regulations was then issued to correct these unhealthy banking practices.

In November 1957, National Development Conference (MUNAP) was held to, among other things, decide the taking over of the Dutch-owned companies, including banks. The initial steps to nationalize the Dutch banks were initiated by the then Chief of the Army (KSAD) as the Military Ruler who stated that the Central Supervision Agency of Dutch Banks was assigned to supervise the activities of the Dutch banks. In the regions where the Dutch-owned banks were situated, Local Supervision Agencies were also established with the objective of preventing the Dutch banks from running in relation to the nationalization policies issued by the government. Supervision of the Dutch banks was directly conducted by deploying supervising team in each bank. Bank Indonesia was playing a pivotal role in these supervision activities because Bank Indonesia had the personnel who were expert in bank supervision and investigation.

The government policy to nationalize the Dutch companies was legitimatized in Act No 86 of 1958, which was retroactively effective from 3 December 1957. The nationalization of the Dutch banks, which were foreign exchange banks, was carried out through prudential principles in order not to cause any financial losses to the state foreign exchange. For this purpose, the Central Supervision Agency retained the supervised banks' old Boards of Directors. Some Dutch banks nationalized at the time were Nationale Handelsbank, that in 1959 turned to State Public Bank (BUNEG), Escomptobank which was turned into Bank Dagang Negara (BDN) in 1960, and Nederlandsch Handel Maatschappij N.V (Factorij) which in 1957 was merged with Bank Koperasi Tani dan Nelayan (BKTN – Cooperative Bank of Farmers and

Fishermen). While the Dutch-owned banks were all nationalized, under the spirit of inciting nationalism and independence and through Government Regulation No. 2 of 1959, other foreign banks (non-Dutch) were all liquidated. These included Overseas Chinese Banking Corporation (OCBC), Bank of China and Hong Kong and Shanghai Banking Corp. to name a few.

2. Indonesia's Banking System and Development up to 1959

The Indonesian banking sector has a series of long history. Since the colonial rule, a number of foreign and Dutch banks as well as a few local banks carried out their business. Even during the national struggle period, a number of banks with nationalism spirit were founded. Soon after the country acquired its independence, the government of the Republic of Indonesia founded state banks, such as Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI), Bank Industri Negara (BIN), and Bank Tabungan Pos. Apart from the state banks, some national private banks, foreign banks (including DJB), rural banks and credit institutions had also been operating at the time. These banks were all flourishing in their era. The establishing of Bank Indonesia on 1 July 1953 had opened up new phases in Indonesia's banking structure, especially in terms of bank supervision. Government Regulation No. 1 of 1955, therefore, then ordered Bank Indonesia on behalf of the Monetary Board to carry out supervision on all the banks operating in the country.

The need for financial institutions playing the role as intermediation agencies between surplus and deficit units, cannot be separated from economy life. This institution is divided into two kinds of banks and non- banks. This article will highlight the Indonesian banking development up to 1959. Equally important is the analysis of regulations on bank supervision. How is this described in details? This article of Indonesian Banking System and Supervision that is divided into 2 parts of episodes will show so.

In principle, the baking system is part of financial system that has wide coverage, namely financial institutions as intermediation institutions, financial instruments, such as stocks, bonds, money market bonds, treasury notes, and markets as instrument trading places such as stock exchange and inter-bank money market. Financial institutions provide intermediation services between the surplus and the deficit units in economy, and all banks are included in this classification.

Secondary financial intermediation is a financial institution that uses loans from other financial institutions. The non-bank financial institutions are classified into this category.

In short, financial institutions include banks, non-bank financial institutions (development financing institutions, intermediation institutions of issuing and trading bonds, for instance), and other kinds of financial institutions, such as insurances, venture capitals, and leasing.

In their operations, banks may be viewed from their function and ownership. From their function, banks are categorized as Commercial Banks, Savings Banks, Development Banks, and Secondary Banks.

Commercial Banks, among other things, serve to provide facilities of the public's fund savings in the form of clearing accounts, savings accounts, or deposit accounts that may be utilized by the public to meet their needs. Apart from this, banks are able to create check and quasi money trough processes of multiplying the funds

generated from the public to be re-channeled to the public. Banks are also assigned to provide fund payment or transfer mechanism that may minimize cost and constraints, as well as to provide loans of great use in increasing production, expanding investment, and improving living standard.

Savings banks, as the name suggests, prioritize the collecting of savings that carry interests in the form of bonds.

Development banks generate funds through deposits and issue time bonds, and run their business by extending long-term credits.

Secondary banks operate locally by receiving savings and extending credits to small traders and the neighboring villagers. The Rural banks, Market Banks and Employee Banks are classified into this category.

In terms of their ownership, banks are classified into the categories of State Banks of which their capitals are fully owned by the government and stand as a separate government asset; Local Government Banks of which their capitals are all or mostly owned by the Local Government and stand as a separate asset of the Local Government (Pemda); National Private Banks of which their capitals are owned by Indonesian citizens or Indonesian corporations; and Foreign Banks as the representative office of the overseas banks or the Joint Venture Banks of which their capitals are partly owned by foreign banks and partly by Indonesian citizens. It is worth noting that not every bank is authorized to carry out transactions with overseas parties, except for the banks that have obtained the license to do so. These are called Foreign Exchange Banks.

It is impossible to separate Indonesia's banking development from the history of the Dutch era when the first Dutch bank, namely Bank Van Leening was founded in 1746. Then in 1824, *Nederlansche Handel Maatchapiij* was established, followed by *De Javasche Bank* in 1828, *Escomptobank* in 1857, and *Nederlanshe Handelsbank* in 1964.

Apart from these Dutch banks, a number of foreign banks were founded in the country. They were the Chartered Bank of India, Australia and China in 1959; Hong Kong and Shanghai Banking Corporation in 1884; Bank of China in 1915; Yokohama Specie Bank in 1919; and Mitsui Bank in 1925.

Local banks also began to operate, such as *Bank Vereeniging Oey Tiong Ham* in in Semarang in 1906, *Shangieh Maatschaapiij* in in Medan 1913, Batavia Bank in Batavia in 1918, and *Spaarbank* or Bank Tabungan in various cities. The emerging of nationalism movement also helped national banks to operate, starting with Bank Nasional Indonesia in Surabaya in 1928.

The state banks incorporated after the era were Bank Negara Indonesia in 1946, Bank Rakyat Indonesia also in 1846, Bank Tabungan Pos that was reopened in 1950, Bank Industri Negara in 1955, and Bank Tani dan Nelayan in 1957.

Indonesia's bank history was also completed with the nationalization of some of the Dutch banks between 1959 and 1960. These covered *Nationale Handels Bank NV*

that turned into Bank Umum Negara, *Escomptobank* into Bank Dagang Negara, and *Nederlansche Handels Maatschapiij* into Bank Ekspor Impor Indonesia.

Bank activities prior to the enactment of Indonesian banking Act No. 11 of 1953 were of various kinds. State banks at this stage were generally still straightening up. BNI, for example, was active in assisting newly emerged businessmen trough fortress importing systems facilitated by foreign exchange, bank credits and government subsidy. Bank Rakyat Indonesia was intensifying the growth of the rural banks; the number of which jumped from 1769 in 1951 to 4640 in 1954. In the same period, Bank Industri Negara succeeded in disbursing loans from Rp 130 million to Rp 426 million, which mostly were for the sugar industry. Bank Tabungan Pos was active in extending loans to the local government to finance the building of markets and bus stations as well as providing electricity. Foreign banks remained dominant in extending loans to foreign debtors – up to 78% - and only a relative small portion of them was extended to national debtors.

Though failing to meet the proper standard, an institution serving to guarantee bank customers' savings and deposits was founded in 1950. This *Yayasan Pemusatan Jaminan Kredit Rakyat* (People's Credit Guarantee Centering Institution) was then reshaped in 1956 and renamed *Lembaga Jaminan Kredit* (Credit Guarantee Institution). In late 1951, through the intermediation of the institution, the credits provided for 44 customers reached Rp 2.7 million, and for exporting/importing and transportation companies comprising 26 customers amounted to Rp 4.7 million.

Banking activity development after the enactment of Banking Act No. 11 of 1953 was becoming more dynamic as seen in the following examples.

1. Bank BNI recorded an average credit increase of 62% annually; from Rp 160 million in 1955 to Rp 380 million in 1959. The bank even participated in businesses such as *Maskapai Asuransi Indonesia* (Indonesian Insurance Company, and Jakarta Lloyd shipping company.
2. BRI increased its credit by 18% in 1958 and 24% in 1959 through its 118 branches.
3. Bank Industri Negara increased its clearing accounts 31% annually from Rp 340 million in 1956 to Rp 552 million in 1958. Its credits grew 62% from Rp 515 million in 1955 to Rp 1,844 million in 1959. To add up the assets, the bank issued bonds traded both in Jakarta Stock Exchange and the Hague Stock Exchange.
4. Bank Koperasi Tani dan Nelayan focused its activities in helping farmers, workers and fishermen out of loan sharks' nets to be able to develop their own business.
5. Bank Tabungan Pos handled increasing funds from Rp 214 million in 1955 to Rp 489 million in 1959. These funds were then invested in government bonds and state-treasury bonds.
6. National private banks managed to increase their credit extension to their customers from Rp 529.2 million in 1955 to Rp 1,481.3 million in 1959, or an increase of 280%.
7. Foreign banks dominating the credit disbursement to foreign companies saw their eroding role due to the conflict between the Indonesia and the Netherlands, in addition to the nationalization of the Dutch companies.

Indonesian banking supervision improved from time to time. There was no supervision of such during the Dutch Indies era. De Javasche Bank, as the issuance bank only performed the analysis of periodic reports submitted voluntarily by banks. After being nationalized in 1951, no significant change was recorded because it was only the ownership and not the task that changed.

Given the banks' activities to generate funds from the public, it is worth noting that they were tightly supervised. Based on Banking Act No. 11 of 1953 the supervision was conducted, from issuing to revoking permits. Supervision authority covered a number of phases. First, it was the issue of permit. A bank had to be verified and inspected whether it owned the operating permit before starting their activities. Second, tight regulations were imposed so that the bank operations were free from policy discrepancies that might incur losses to the customers. Third, either direct supervision or indirect supervision through periodic financial reports had to be thoroughly in place to prevent irregularities. Finally, sanctions were imposed depending on the degree of irregularities committed. Revocation of permits was imminent if gross violations were evident.

Effective supervision in the form of implementation regulations is stipulated in Government Regulation No. 1 of 1955 pursuant to Banking Act No. 11 of 1953. It was of no surprise if Banking Act No. 11 of 1953 and Government Regulation No. 1 of 1955 are cited as the historical foundation of the Indonesian banking supervision development. Later on both these regulations were amended through Act No 14/1967 and Act No.7/1992.

Two striking things in the history and development of Indonesian banking up to 1959 were the commencement of bank supervision in 1955 and the dwindling role of foreign banks in financing the private sector. National banks get more and more spirited in supporting the national economic development.

The bank development has colored the Indonesian economy. Upon the nationalization of the Dutch banks, Indonesian Banking Act No 11 of 1953 further supported the national banks. This was then completed with Government Regulation No. 1 of 1955. Both later played a significant role in the development of Indonesia's banking supervision.

3. Nationalization of Dutch Banks

After seven years had passed, Indonesia unilaterally severed its ties with the Netherlands through the Round Table Conference (KMB) convened in 1949. At the same time, the country's political condition was in turmoil because of disharmonious relationship between the Central Government and Local Governments. This was a sufficient reason for Soekarno to declare a state of emergency in March 1957. To settle the political disagreement between the Central Government and the Local Governments, a National Development Conference (MUNAP) was held. The conference, among other things, decided to take over the Dutch economic-based companies, including the Dutch banks. Prior to the taking-over decision, there were three Dutch-owned banks still operating, namely Nationale Handelsbank, Escomptobank and Nederlandsche Handel Maatschappij (NHM). Upon such take-over, the three banks were then nationalized and merged with the new banks founded by the government of the Republic of Indonesia. In spite of cautious nationalization steps, negative impacts in the banking activities still lingered. This was seen from the amounts of foreign bank credits that continually shrank after the nationalization of the Dutch banks was carried out.

The Indonesian people were first introduced to banking institutions upon the establishment of De Bank Van Leening by the Dutch government. Foreign banks began to operate in line with the developing of the country's economy. The war between Indonesia and the Netherlands over the Dutch colonization instilled hatred in the hearts of Indonesians. Peace efforts had been initiated several times, yet the Dutch government kept breaching the deal. The remaining hatred in the hearts of the Indonesians sparked the nationalism spirit for nationalizing the Dutch companies and such desire magnified that the taking over of these Dutch companies finally took place. The Dutch banks were of no exception. For that reason, Act No. 86 of 1958 that legalized the nationalization move of the Dutch companies was issued and retroactively valid from 3 December 1957.

De *Bank Van Leening*, founded on 20 August 1746, marked the presence of banks in Indonesia. In its operations, however, *De Bank Van Leening* failed to run well. It was then merged with *De Bankcourant* incorporated on 1 September 1752 and turned to *De Bankcourant en Bank Van Leening* on 5 September 1752. This bank did not perform well either and was finally closed down due to bankruptcy.

De Javasche Bank that was founded in 1828 was the Dutch bank that managed to grow and serve as the embryo of Bank Indonesia in a later stage. Other Dutch banks, such as *Nederlansch Indische Escompto Maatchapij*, *Nederlandsch Indicshe Handelsbank*, and

Nederlandsche Handel Maatschapij began to operate in 1857, 1864 and 1883 respectively.

Along with the development of the country's economy, some foreign banks also began to operate. These were:

1. The Charter bank of India, Australia, Batavia in 1862.
2. Hong Kong and Shanghai Banking Corporation, Batavia in 1884.
3. Yokohama-Specie Bank, Batavia in 1919.
4. Taiwan Bank, Batavia, Semarang, and Surabaya in 1915.
5. China and Southern Ltd, Batavia in 1920.
6. Mitsui Bank, Surabaya in 1920.
7. Overseas China Banking Corporation, Batavia in 1932.

During the colonial era, the number of banks was fluctuating. Shortly before World War II broke up, the Dutch Indies Government liquidated three Japanese banks operating then. When Japan was ruling over the Asia Pacific region, the Japanese government liquidated the Dutch, British and some Chinese banks.

The return of the Dutch banks after Indonesia's 1945 independence began upon the victory of the Allied Forces against Japan in Asia Pacific. The Dutch, who again retuned to Indonesia simultaneously with the presence of the Allied Forces, disarmed the Japanese troops and were trying to occupy Indonesia again.

The Governor General of Dutch Indies on 2 January 1946 issued the permit of the establishment of a Dutch bank. This was then followed by the operations of a number of Dutch banks in some Indonesian territories.

Meanwhile, the military conflicts between Indonesia and the Netherlands again occurred following the Dutch breaching the Linggarjati Treaty. The Dutch Military Aggression I was ended following the signing of the Renville Treaty on 17 January 1948. The Dutch, however, violated the treaty and again launched Military Aggression II. The military conflicts between Indonesia and the Netherlands were put to a complete halt after the UNO Security Council appealed that both conflicting sides had to seek peaceful means to settle the conflicts.

In late 1949, the Round Table Conference (KMB) that was held in Den Haag, Netherlands, agreed to the founding of the Republic of Indonesian State that covered all Indonesian territories, except West Irian which would be settled separately within a year.

Until the time when Indonesia finally dissolved the Republic of Indonesian States in 1950, the West Irian issue was not yet resolved, so the anti-Dutch feeling deeply rooted in the hearts of the people became even stronger.

Ultimately, the government officially declared the revocation of the KMB. At the same time, the domestic situation was heating up due to conflicts between the central and the local governments. The main reason was the imbalance power sharing, developments, and finance.

To end this national upheaval, pursuant to Act No. 74 of 1957 on State under emergency, in March 1957 President Soekarno declared all Indonesian territories under emergency state and authorized the Chief of the Army to restore law and order in the country.

To come up with concrete steps to improve the ties between the central and local governments and speed up the economic development, the government stages the National Development Conference. In accordance with the public demands, the Conference recommended that the Dutch companies, including three of the seven foreign banks operating at the time, be exploited in the interest of the state and the people.

However, the anti-Dutch feeling was raging and people's nationalism spirit was beyond control that the Workers' Union took over some Dutch companies in a number of occasions before the government even began to do any official steps to nationalize the Dutch companies.

To avoid arbitrary nationalization moves of the Dutch banks and to ensure that the country's economy was rolling, Bank Indonesia took the initiative to visit the Army Headquarters in order to discuss and formulate the security measures to take over and supervise the Dutch banks.

Bearing in mind legal matters and viewing possible bank rush, sabotage, creditors' interest, compensation, securing state foreign exchange, as well as continuity of the banks' operations, the discussion finally resulted in the formulation of supervision of the Dutch banks and establishment of the Central Board of Bank Supervision (BPBB) comprising representatives of the Army, Bank Indonesia and the Ministry of Finance. The decisions were legitimized that very night trough the announcement made by the Minister of Finance and the Army Chief Resolution No. Kpts/MP/080 of 1957 dated 8 December 1957.

This Central Board of Bank Supervision and the Local Boards of Bank Supervision then deployed the supervising teams to ensure that the Dutch banks maintained save and normal operations in line with the goals of the nationalization move. The nationalization steps were then supported by the issuance of War Ruler Regulation No. Prt/Peperpu/05 of 1958 dated 5 March 1958 requiring all Dutch banks to continue extending credits having been approved to the customers, and guaranteeing the Dutch companies of save transactions through the Dutch banks.

Along with the lifting of the state of emergency status, new acts relating to Dutch banks supervision were issued. Government Regulation No. 22 of 1956 put the government and the army role in their respective proper roles in controlling and supervising the Dutch banks. Since then the Minister of Finance was fully in charge of supervising the Dutch banks.

To legitimize activities of nationalizing the Dutch companies, the government further issued Act No. 86 of 1958 that was retroactively valid from 3 December 1957.

The nationalization of the Dutch banks began with the halt of all overseas activities of *Nationale Handelsbank NV*. As from 3 December 1958, NHB was not allowed to carry out any new transactions. NHB was allowed to only conduct overseas transactions that were agreed and still made before 5 November 1958. NHB required

its corresponding overseas banks to transfer its entire foreign exchange to the account of state-owned Foreign Exchange Fund.

The management of *Nationale Handelsbank NV* was handed to the Central Board of Bank Supervision on 20 April 1959. The bank was then nationalized on 10 August 1959 and its assets were handed to Bank Umum Negara.

The statute of *Escomptobank* was amended through the Extraordinary Meeting of Shareholders held on 18 November 1958. The Board of Commissioners and Board of Directors of PT Escomptobank in Jakarta, who were all Indonesian nationals, were given broader authority over the Supervising Board/Branch Managers of Escomptobank branches overseas. The shares of PT Escomptobank having been issued as face value shares had to be altered to ordinary shares.

PT Escomptobank was no longer allowed to conduct overseas transactions effective from 8 February 1960. PT Escomptobank was further nationalized on 1 April 1960. Ten days afterwards, the government liquidated PT Escomptobank. All the rights, authority, payables and obligations were handed to Bank Dagang Negara.

The management of *Nederlandsche Handel Maatschapij NV* in Indonesia was taken over by the Central Board of Bank Supervision on 12 November 1960 through the Regulation of the Minister of Finance No. 246037/B.U.M. II dated 8 November 1960. *Nederlandsche Handel Maatschapij* was subsequently nationalized on 29 November 1960. All rights, assets and businesses of *Nederlandsche Handel Maatschapij* was handed to Bank Koperasi Tani dan Nelayan of which its administrative implementation was conducted separately by the name of BKTN of export/import affairs starting from 5 December 1960.

Indonesia's foreign and domestic political policies as well as the nationalization move by the Indonesian government sparked foreign customers to close their bank accounts and return to their home countries. A number of foreign individuals and companies shifted their banking activities to Bank Negara Indonesia (BNI). As a result, the amount of funds extended by the foreign banks dropped sharply. The extending of development and trading credits was finally taken over by the national banks. The nationalizing of the Dutch banks was a preliminary step of the national banks' existence in the country's economy.

So it happened. The burning nationalism spirit motivated the Indonesians to nationalize the Dutch companies, including banking institutions. The nationalizing process began with Nationale Handelsbank NV, which then was followed by Escomptobank, and Nederlandsche Handel Maatschapij NV. The nationalization move was the marked the emergency of the national banks in the Indonesian banking industry. May the Indonesian banking continuously prosper!

4. Direction of Banking Policies 1953-1959

This period saw the beginning of bank supervision by BI. As regulated under Act No. 11 of 1953 regarding the Principles of the Central Bank, the supervision role by BI was aimed to make sure the solvability and liquidity of banks.

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In its later development, numerous activities and events affected the dimension of bank supervision. For example, the nationalization of the Dutch banks followed by a series of other measures, such as revamping their legal aspects to comply with the laws prevailing in Indonesia, and transfer of the banks' assets and liabilities (administrative revamp) of the said banks. For this purpose, the government incorporated Bank Umum Negara (BUNEG) at the end of 1959 aimed to pool the entire assets and take over the Nationale Handelsbank (NHB) which had been nationalized in the same year.

As a result, there were 4 major issues in this period which directed the bank supervision. The first issue was curbing the inflation by restricting the growth of banking credit. The second issue was effective bank lending (according to the prudent loan disbursement principles) to benefit the productive sectors. The third issue was the nationalization of the Dutch banks and modified their business orientation and legal framework to suit the Indonesian banking policies and legality. The fourth issue was searching (through trial and error) the most suitable method to supervise the liquidity and solvability of banks.

5. Strategic Steps 1953-1959

Upon the enactment of Act on the Central Bank Principles of 1953, BI, as the institution that paved the way for drafting the bank supervision regulations, conducted a research and study of similar regulations prevailing in a number of countries, particularly the Netherlands.

Upon the enactment of Act on the Central Bank Principles of 1953, BI, as the institution that paved the way for drafting the bank supervision regulations, conducted a research and study of similar regulations prevailing in a number of countries, particularly the Netherlands. To prevent the private banks from growing and uncontrolled, as from 1 January 1955, the Government enacted Government Regulation No. 1 aimed to regulate the control the credit extension in Indonesia. This Government Regulation empowered BI to supervise all commercial banks and saving banks operating in Indonesia on behalf of the Monetary Council. Such supervision role was meant to maintain the solvability and liquidity of banks. In this way, loans would be soundly and appropriately disbursed.

Upon the enactment of Government Regulation No. 1 of 1955, the existing national private banks, in three months time, had to apply for their business permits from the Minister of Finance via BI. If the prerequisites to apply for the business permits had not been met, the Minister of Finance would grant temporary licenses. The Minister of Finance would grant permanent business permits upon a recommendation from the Central Bank. A number of banks were denied permanent licenses as they had failed to meet their capital requirements. In correspond to this, the Monetary Council decided to extend these banks' temporary licenses for another year. These banks were therefore expected to demonstrate their genuine benefits to the public, and able to fulfill their capital requirements.

In 1957, BI set up Credit Affairs Control Section. To recruit the staff and fill the positions as controllers, BI run a Bank Examination Course for own employees and those recruited from outside BI. The program took place for one year and employed several instructors from the Filipino Central Bank because the bank supervision system of the Philippines were considered more suitable to the Indonesian banking system. These bank controllers began to carry their on-the-spot inspection against the banks, which had obtained their permanent licenses or temporary licenses. The officers discovered some fictitious payments from banks. To cope with such irregularities, Bank Indonesia later determined that the required capital had to paid to Bank Indonesia in Jakarta and/or its branches, and such payments were frozen until the said banks obtained their business permits and had commenced their business operations. Aside from that, these banks were obliged to submit the resumes of their management members (board of directors and board of commissioners) as well as other supporting evidence.

Upon the enactment of these regulations, BI carried out the preliminary steps to develop sound banks. Banks which had obtained their permanent licenses but

evidently operated using false information were reprimanded to immediately meet their obligations. Otherwise, they were subject to revocation of their business permits.

To cope with the increasing amount of money in circulation, the Government through the Monetary Council in early May 1957 restricted the credit disbursement by the private banks, and Bank Indonesia was appointed to do the job. Apart from that, the Government's policy to impose the mandatory 'reserves requirement' for the banks was the preliminary step of the monetary policy that controlled the amount of money in circulation. In doing so, the government introduced the cheque payment.

When the Dutch banks were taken over and run under the power of the Military Ruler on 8 December 1957, the control of bank administration of the Dutch banks were entrusted to the Central Bank Supervision Board whereby BI acted as the Deputy Chairman concurrently Member. This supervising board was founded to prevent bank rush to the Dutch banks in respect to such takeover and to formulate the legal steps aimed at maintaining the operations of the respective banks.

BI's roles in formulating the policies as a follow up of the decision of the Army Chief of Staff as well as carrying out direct supervision of the banks are badly required. BI then employed special officers who mastered the banking affairs and bank control & inspection system.

6. Supervision Authority 1953-1959

The Act on the Central Bank Principles of 1953, paragraphs 4 and 5 of article 7 stated that BI was responsible for overseeing the credit affairs. Pending the implementation of act and regulation on the overseeing of credit affairs, BI continued its supervision role under a government regulation.

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On 15 January 1955, the Government issued Government Regulation No. 1 that regulated the credit supervision in Indonesia. Under Government Regulation No. 1 of 1955, BI on behalf of the Monetary Council oversaw the credit institutions (commercial banks and saving banks) that existed or the ones to be incorporated in Indonesia. This aimed to maintain the solvability and liquidity of the banks to they could disburse the loans soundly in compliance to the appropriate principles of bank policies. In correspond to this duty, BI was allowed to issue general regulations against the banks regarding their operations and credit policies. In addition, BI reserved the right to ask the banks to provide data and information deemed necessary.

Government Regulation No. 1 of 1955 stated that the entire regulations contained herein were valid for all banks in Indonesia, state banks and national private banks. However, in its execution, particularly in correspond to the provisions on the institution aspects, namely bank establishment and bank supervision, BI would remain distinguishing the ownership aspects in the same manner prior to the issuance of such Government Regulation. Banks were grouped into state banks, national private banks and foreign banks.

The nationalization of the Dutch banks shifted their supervision role. On 8 December 1957, the Government issued a Minister of Finance Announcement and Letter from the Army Chief of Staff regarding the plan to place all the Dutch banks under the Military Ruler. In compliance to such decision, the supervision of the Dutch banks' operation was entrusted to the Central Board of Bank Supervision made up of the Finance and Economic Coordinator (Finek) of the Army/Executive Staff of the Military Ruler, representatives of BI as Deputy Chairman concurrently member. The branch offices of the Dutch banks were found in each region. The Regional Rulers were appointed by the Regional Board for Bank Supervision. Their membership complied to that of the Central Bank Supervision.

On 16 April 1958, the Government issued Government Regulation No. 22 of 1958 regarding the naming of all the Dutch banks controlled by the Indonesian Government and the establishment of the Central Supervision Board for the Dutch Banks. This Government Regulation was an amendment of the resolutions previously made. Pursuant to this Government Regulation, the Minister of Finance was responsible for supervising the Dutch Banks

7. Strategic Goals 1953-1959

Being the supervisor of lending banks (commercial and saving banks) in Indonesia, BI began to enact the regulations aimed to develop the sound banking.

Being the supervisor of lending banks (commercial and saving banks) in Indonesia, BI began to enact the regulations aimed to develop the sound banking. Banks which had been granted permanent licenses, but running the banks using inaccurate information were reprimanded to immediately meet their obligations. Otherwise, they were subject to revocation of their business permits.

When the monetary condition were extremely difficult to control, BI was ordered by the Government through the Monetary Council to limit the private banks' lending. In addition, the Government began to impose the reserves requirement against the banks as to control the money in circulation.

Upon the nationalization of the Dutch banks, BI acted as the Deputy Chairman concurrently Member of the Central Supervising Board for Banks. While the Branch Managers of BI served as the Deputy Chairman of the Regional Bank Supervision Board. These boards were formed to prevent bank runs against the Dutch banks following the takeover by the Indonesian Government. This move aimed to rescue the existing state foreign exchange which at the time of takeover were kept in the correspondent banks. The other goal was to resolve the legal aspects arising from such banks' takeover.